

To: [REDACTED]
From: [REDACTED]
Subject: FW: GRAND CAYMAN: 2003 ANNUAL REVIEW

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FM GRAND CAYMAN
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SUBJECT: GRAND CAYMAN: 2003 ANNUAL REVIEW

SUMMARY

1. Quincentennial year clouded by Eurobank and concern about EU Directive. Need to agree new Constitution early in 2004, before November elections. UK/Cayman relationship likely meanwhile to remain strained.

DETAIL

2. The Eurobank trial collapsed in January after exposure of UK intelligence activities in Cayman over 12 years. [REDACTED]

3. The yearlong celebrations to mark the Quincentennial of the discovery of the Islands by Columbus inspired new pride in Cayman's history and heritage. The Earl of Wessex's visit in May

showed Cayman's continuing loyalty to the Crown.

4. US economic recovery helped Cayman's financial services and tourism. Cruise-ship visitors (1.7 million) were up by 15%, whilst stayover visitors (290,000) were slightly down. A construction boom boosted employment. Government spending aspirations continued to outstrip revenue, but consolidation of most outstanding debt into a single bond reduced annual debt service costs.

5. Cabinet granted Caymanian status to 2,500 mostly long-term expatriates. There are still nearly 200 residents of 20+ years' standing without status. Most of these will get status early in 2004. Thereafter the new Immigration Act offers a more predictable process, but those who qualify for permanent residence and BOTC naturalisation (after approx 10 years) will still need to wait another five years before applying for status.

6. For most of 2003, the CIG adamantly opposed the EU Savings Directive. Discussions with the Treasury in November/December have narrowed what seemed an unbridgeable gap. Voluntary commitment by CIG early in 2004 may save the UKG from having to impose the Directive by legislation.

7. After productive talks in London last December, the FCO remitted to Cayman in February a revised draft new Constitution. In August an Electoral Boundary Commission recommended the boundaries for 17 single-member constituencies. In November the Legislative Assembly approved several changes to the draft Constitution, mostly by majority vote along party lines. The most contentious issue is the United Democratic Party's determination to postpone until 2008 the move to single-member constituencies in West Bay, Bodden Town and the Sister Islands. Another round of talks with the FCO will be needed early in 2004 to resolve the outstanding points.

8. The three most immediate challenges in 2004 are:

(1) to pin down the CIG on the EU Directive. Even then, it will be a big task to work out the practicalities of automatic exchange of information or (more likely at first) a withholding tax. Cayman will still not implement the Directive until other affected jurisdictions are also on board;

(2) to agree a new Constitution acceptable to UKG, UDP and the opposition People's Progressive Movement. If agreement cannot be reached by March on the voting system for the November 2004 elections, these will need to be held on the basis of the current Constitution, which might then remain in place for another four years; and

(3) to agree guidelines for CIG borrowing. The CIG awaits the UK response to a counter-proposal made late in 2003 which would rely on constraints in Cayman's own Public Management & Finance law, without the need for FCO approval of individual loans. The CIG meanwhile urgently needs UK permission to borrow at least CI\$18 million for roads and a new primary school.

9. 

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(1) Financial services. An IMF assessment mission visited in September 2003. Its report is not finalised but will be largely positive.

[REDACTED]

(2) Environment. This is not getting the balanced attention it deserves. A growing minority is worried about the impact of environmental deterioration on tourism and the quality of life. But McKeeva Bush, as Minister for Tourism, Environment, Development and Commerce,

[REDACTED]

(3) Human Rights. 2003 saw the opening of a Crisis Centre for victims of domestic abuse and construction of a separate young offenders' block at Northward Prison, but the CIG still lacks a comprehensive human rights strategy. I have appointed Roy Bodden (Minister of Education) to chair a new Human Rights Committee to co-ordinate action on Social Development Direct's recommendations.

(4) Drugs and Crime. The CIG is striving to deter young people against drug-taking. Greater interdiction of transit traffic is also vital. Drug-related violent crime, though still rare by regional standards, is the greatest threat to Cayman's security and welfare.

(5) Aviation and Marine Security. Aviation security has improved, and with TRANSSEC's help it should be possible to meet the July 2004 deadline for meeting the new US requirements for port security.

10. Whatever the outcome of the Constitutional Review, our biggest challenge in 2004, following the recent OTCC, will be to steer a course which earns greater confidence in Cayman of UK goodwill and commitment while safeguarding essential UK interests. It is not just the elected government that sees the UK as too restrictive and self-interested in its attitude towards Cayman.

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